

Recovery of Lost Purchasing Power

Background

The various retirement systems and plans have distinct cost-of-living-adjustments (COLA) for beneficiaries. They vary from a fully indexed benefit for members of the Law Enforcement Officers and Fire Fighters plan 1, to the more recent Uniform Increase for members of the Public Employees' Retirement System plan 1 and Teachers Retirement System plan 1. These COLA provisions have a direct bearing on how the benefits of each system and plan maintain a beneficiary's purchasing power. A fully indexed benefit will offer a benefit whose purchasing power is fully maintained. A benefit that is not fully indexed will lose purchasing power when inflation is above the level of increase that the COLAs offer.

Committee Activity

Presentation:

November 18, 2003 - Full Committee Meeting

Recommendation to Legislature

None

Staff Contact

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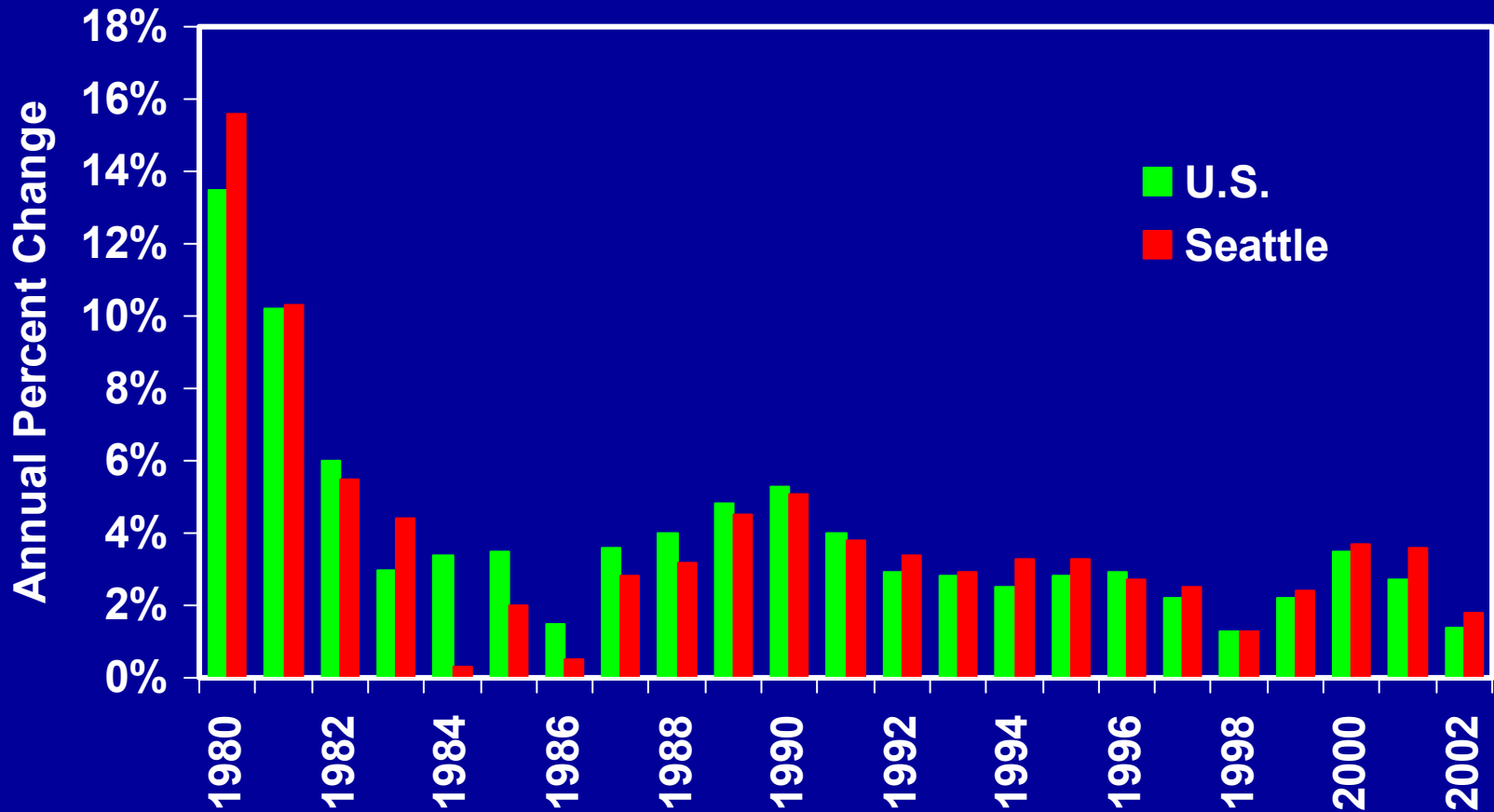


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Robert Wm. Baker
Office of the State Actuary
November 18, 2003

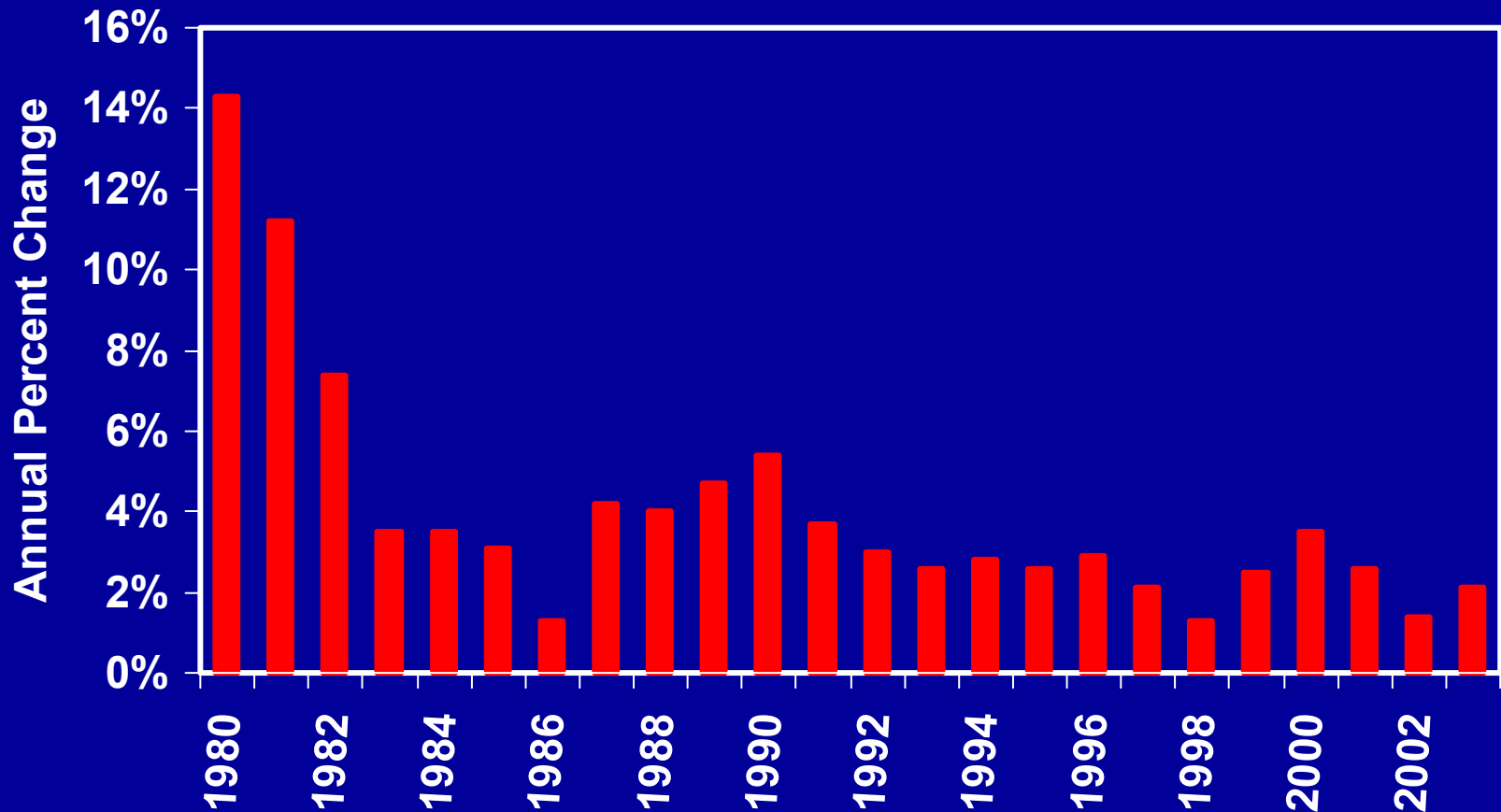
Consumer Price Indices

Urban Wage Earners and Clerical Workers

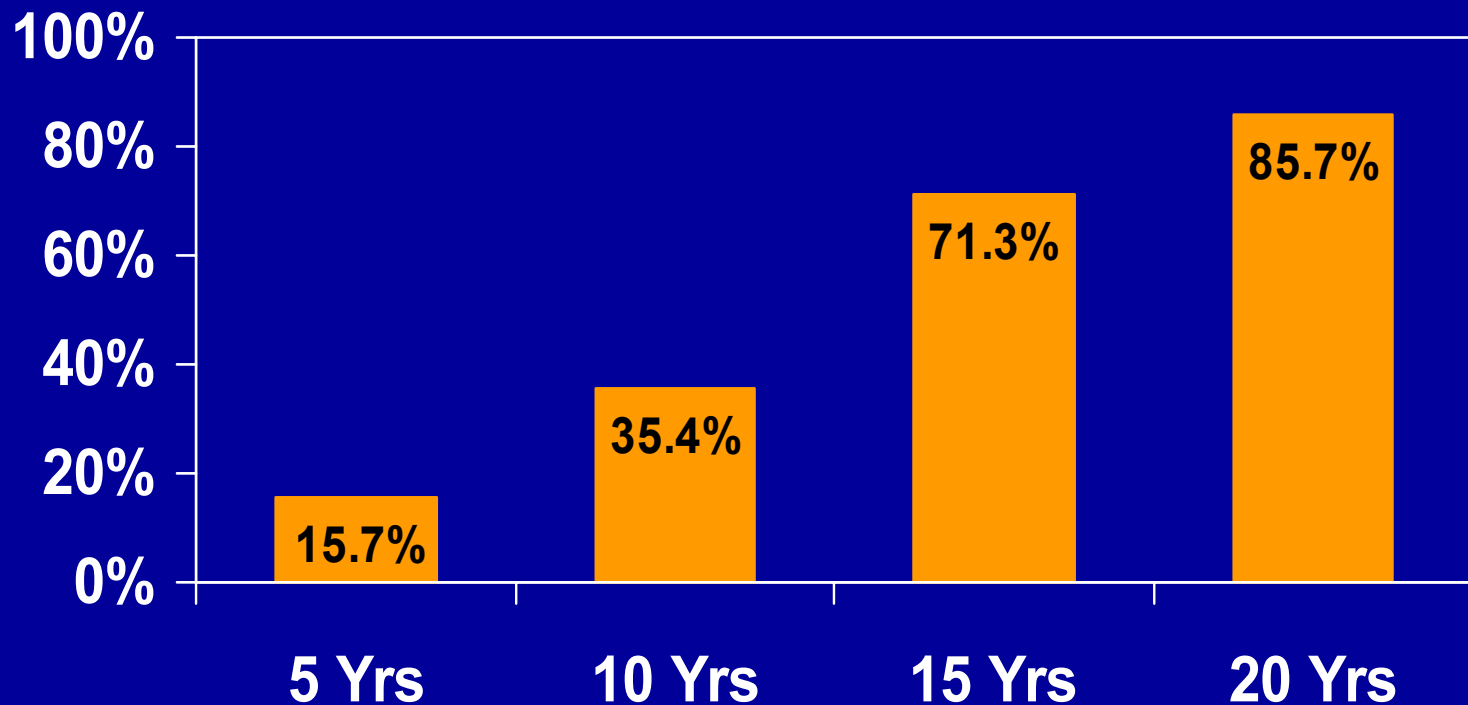


Social Security Benefit

Annual % Change



Increases in Seattle Consumer Prices by Select Periods



PERS/TRS 1 COLA Benefits

Uniform Benefit: At age 66, after 1 yr of retirement, a dollar amount per month per year of service increased each year by 3%

LEOFF 1 COLA Benefits

Benefit fully indexed to the Seattle
CPI-W

Plan 2 COLA Benefits

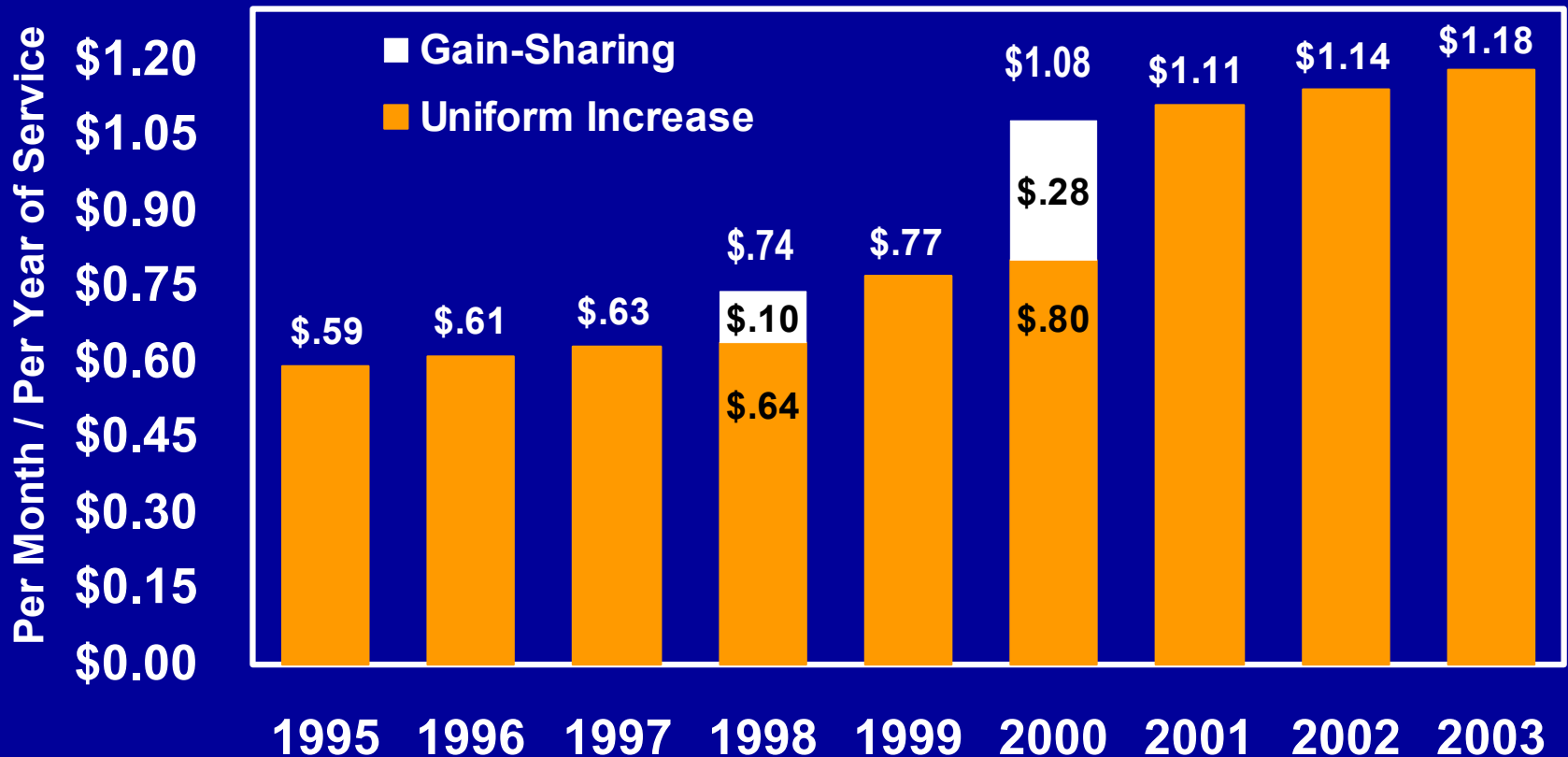
After 1 year of retirement at age 65, annual increases based on the Seattle CPI-W to a maximum of 3% per year

Plan 3 COLA Benefits

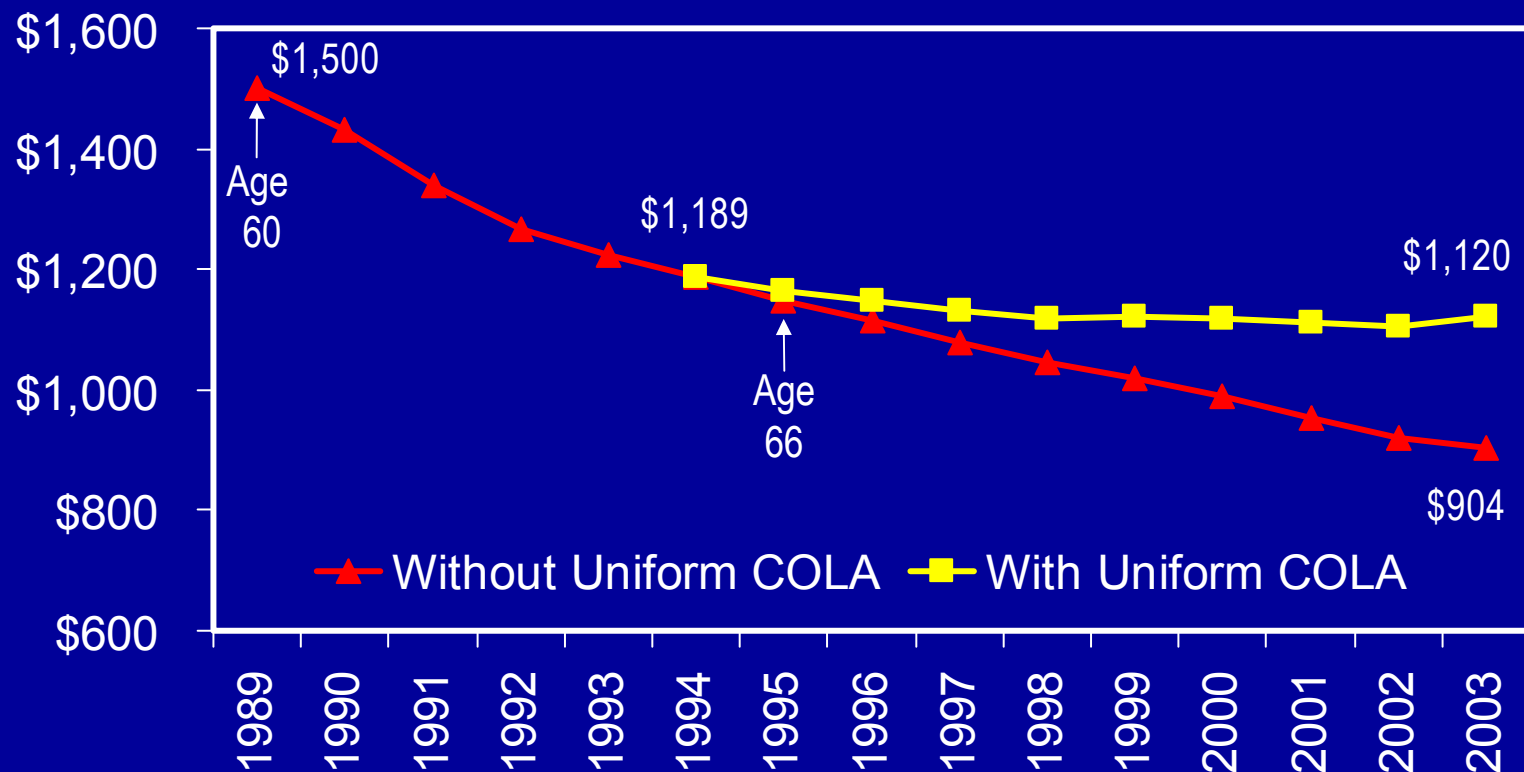
After 1 year of retirement, annual increases in the defined benefit portion based on the Seattle CPI-W to a maximum of 3% per year

PERS/TRS Plan 1

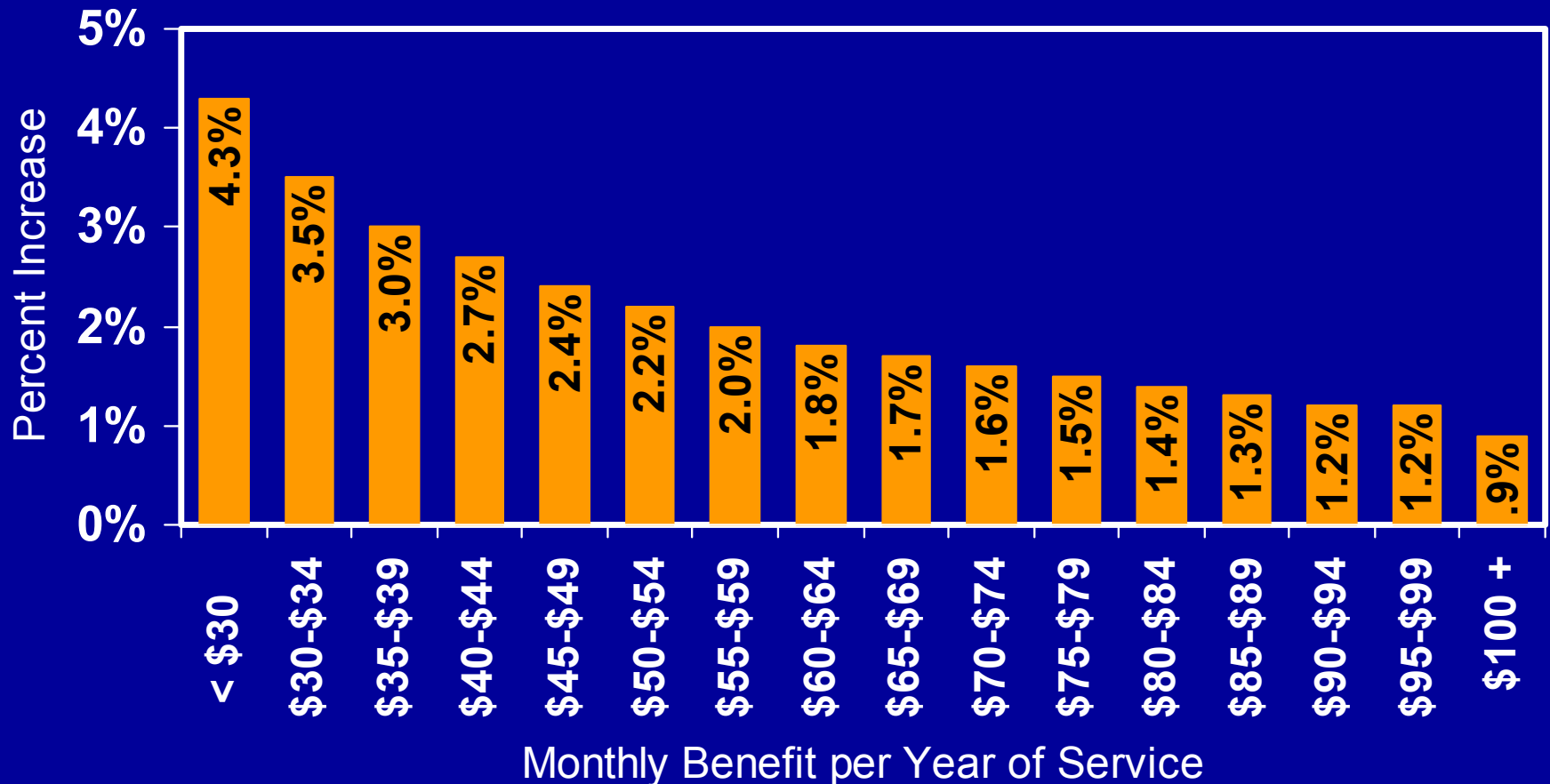
Uniform Increase Amount



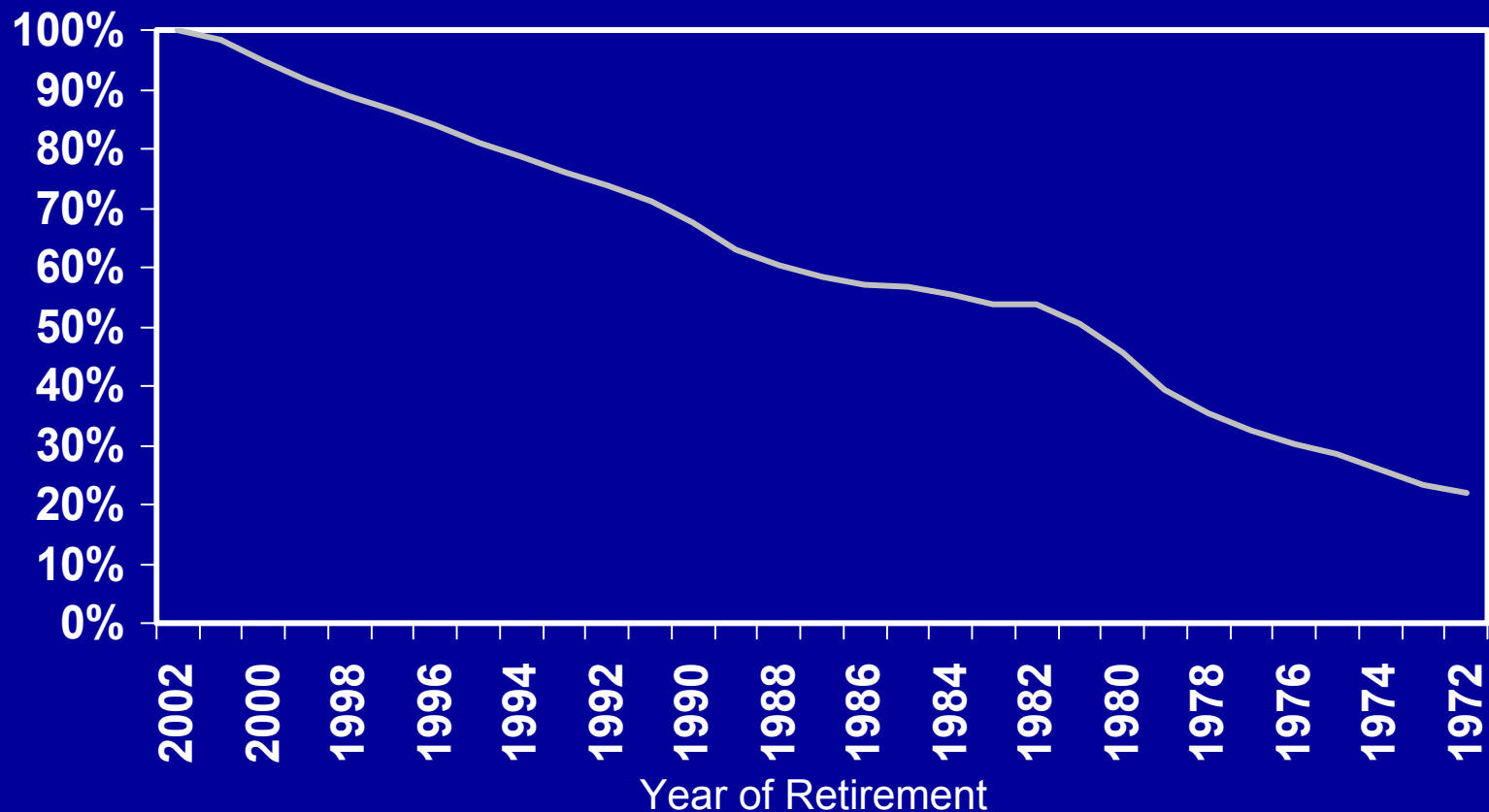
Plan 1 Benefit Purchasing Power With and Without Uniform COLA



Uniform COLA % Increase by Monthly Benefit per YOS at 9-30-2002

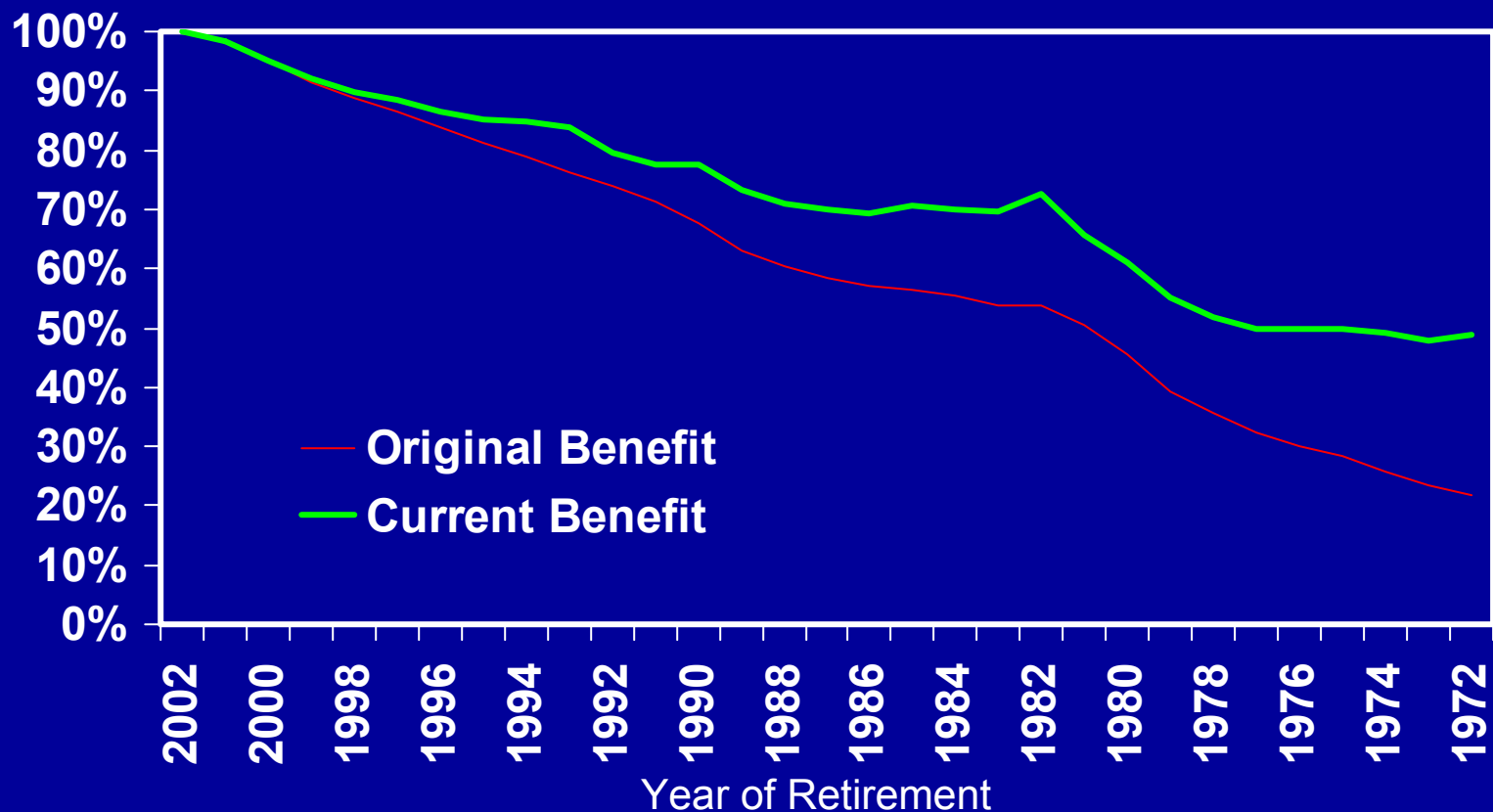


Purchasing Power of a Fixed-Dollar Benefit in 2002



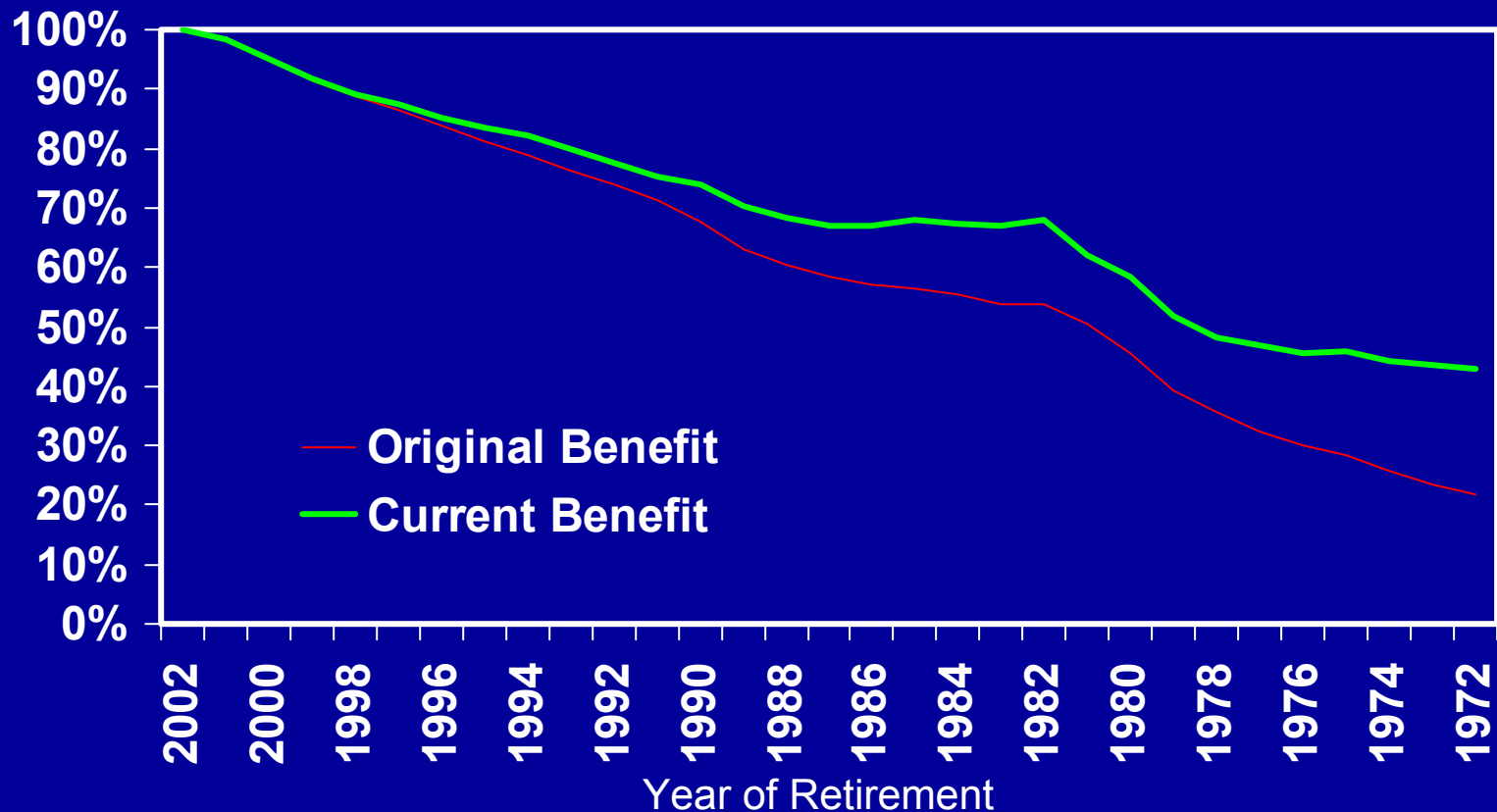
Based on consumer price increases as measured by the CPI-W for Seattle-Tacoma-Bremerton.

Purchasing Power of PERS 1 Service Benefits in 2002



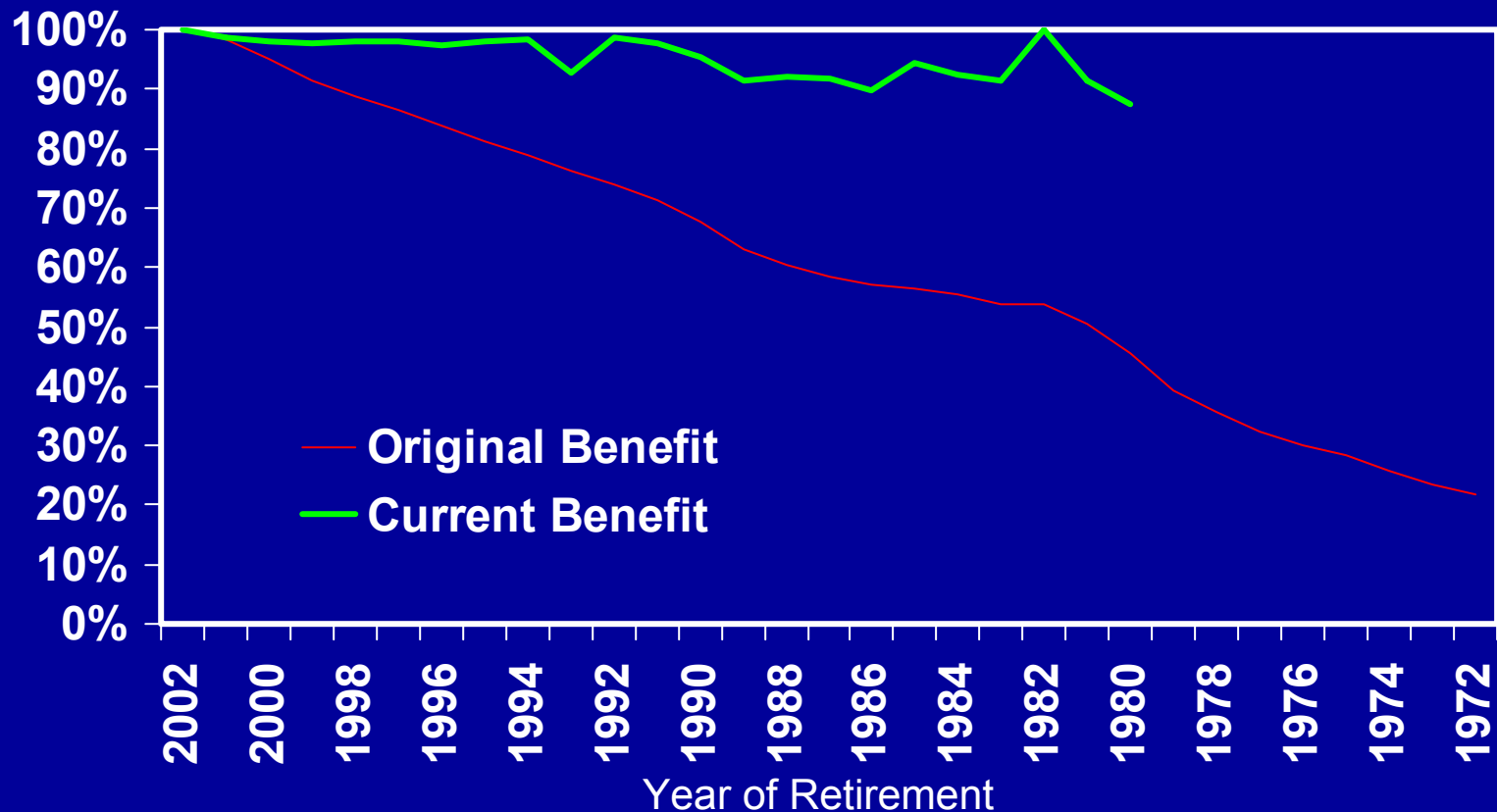
Based on consumer price increases as measured by the CPI-W for Seattle-Tacoma-Bremerton.

Purchasing Power of TRS 1 Service Benefits in 2002



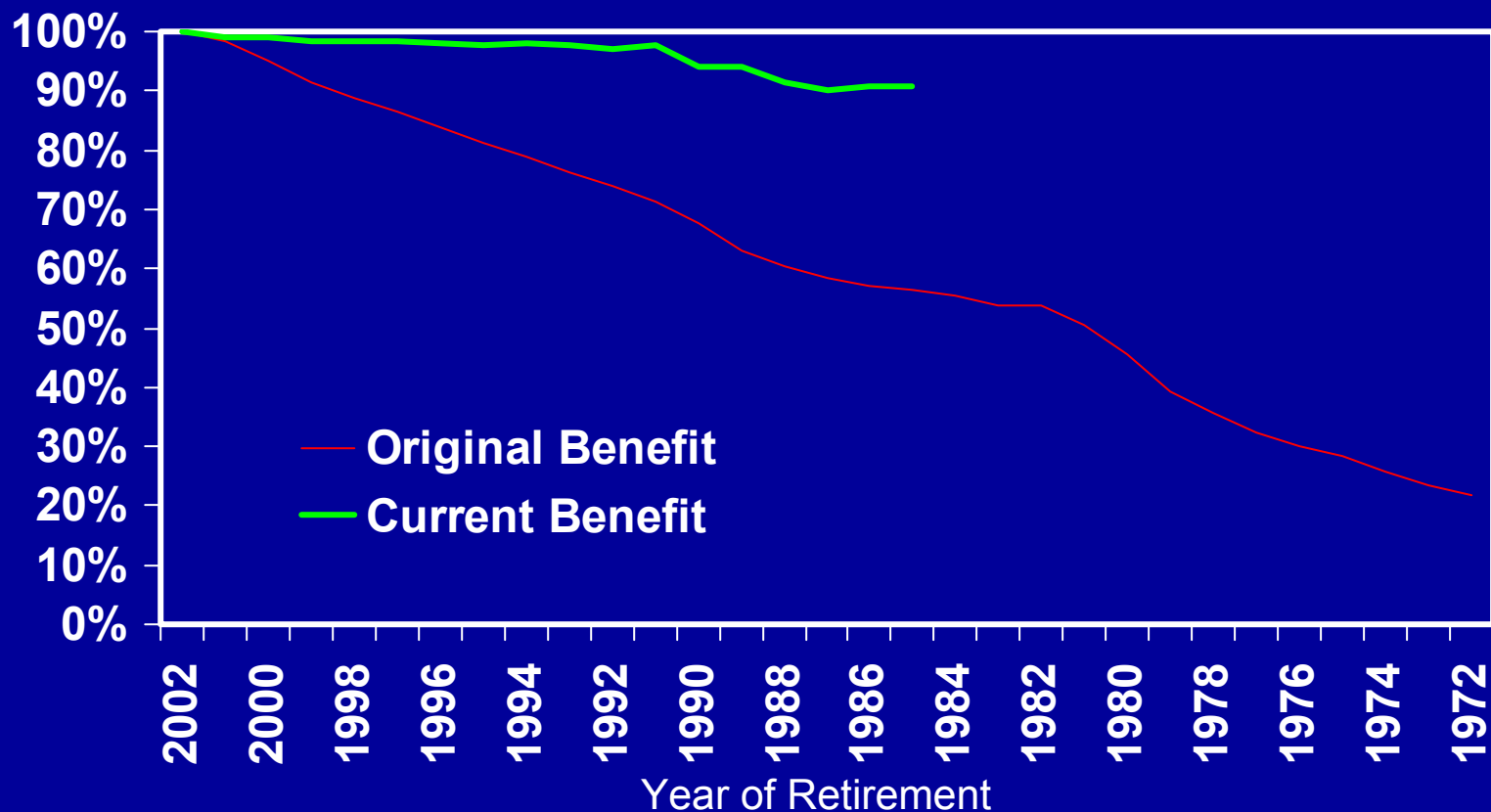
Based on consumer price increases as measured by the CPI-W for Seattle-Tacoma-Bremerton.

Purchasing Power of PERS 2/3 Service Benefits in 2002



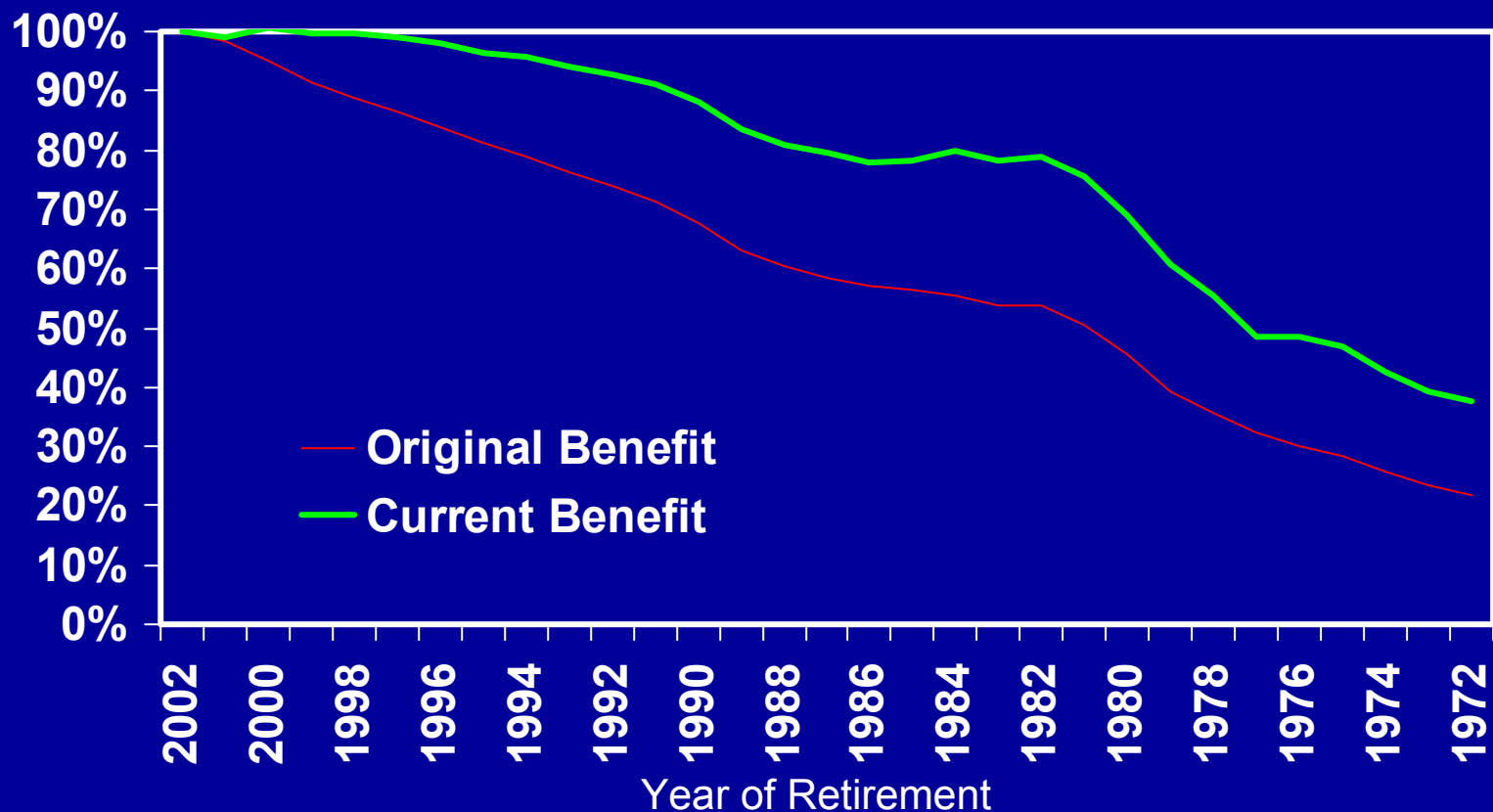
Based on consumer price increases as measured by the CPI-W for Seattle-Tacoma-Bremerton.

Purchasing Power of TRS 2/3 Service Benefits in 2002



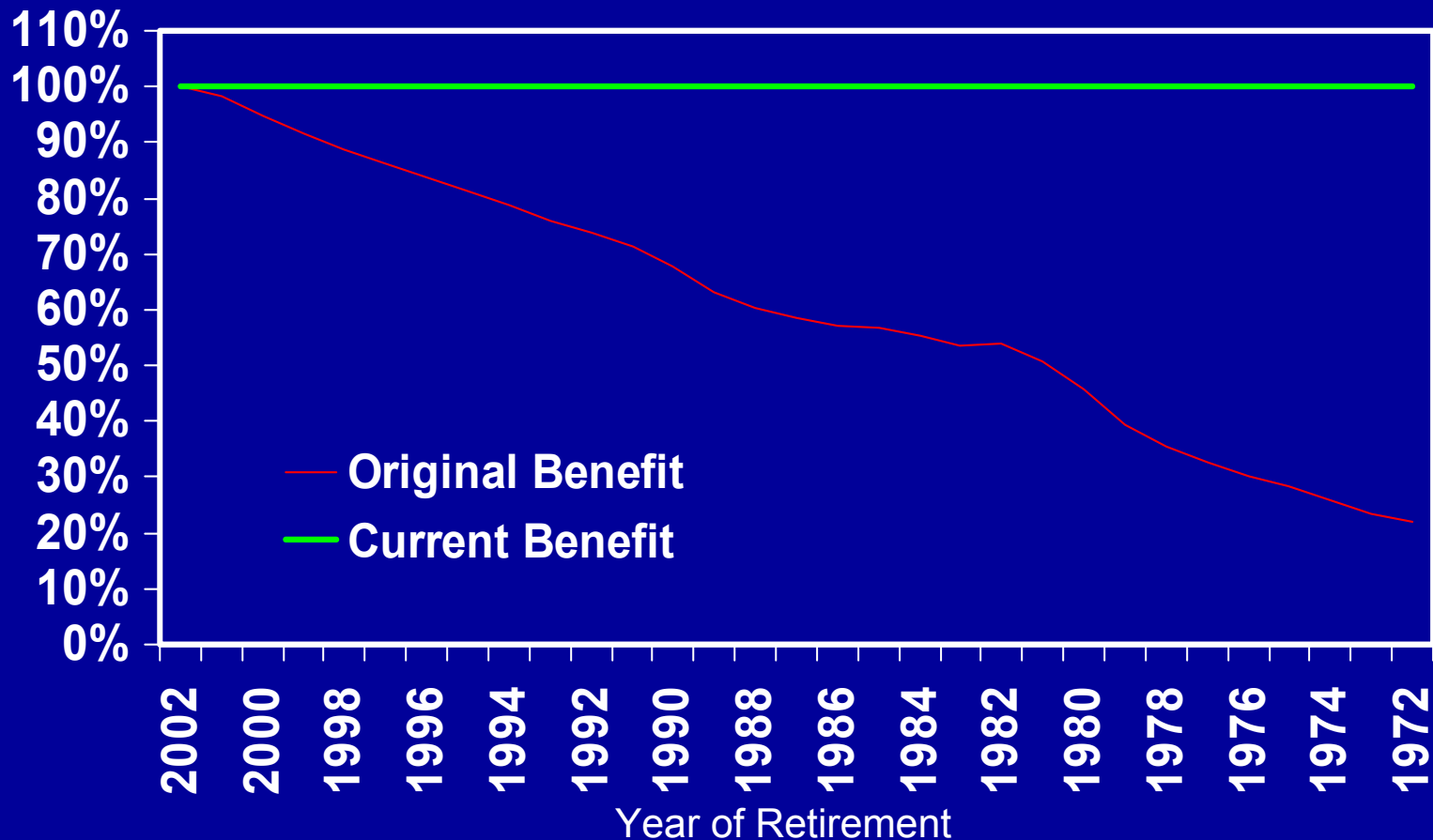
Based on consumer price increases as measured by the CPI-W for Seattle-Tacoma-Bremerton.

Purchasing Power of WSPRS Service Benefits in 2002



Based on consumer price increases as measured by the CPI-W for Seattle-Tacoma-Bremerton.

Purchasing Power of LEOFF 1 Service Benefits in 2002



Based on consumer price increases as measured by the CPI-W for Seattle-Tacoma-Bremerton.

% of Total Expenditures by Category for Working and Retired

	Working	Retired
Food & Beverages	14.1%	14.8%
Housing	32.7%	33.2%
Apparel	4.7%	3.2%
Transportation	19.8%	17.1%
Health care	4.3%	12.8%
Entertainment	5.0%	4.7%
Insurance	10.7%	3.3%
Other	8.8%	10.9%

Source: Consumer Expenditure Survey USDOL/BLS

Conclusion

- Inflation - The lower the better
- PERS 1 and TRS 1 - Gradual purchasing power losses may result in significant diminishment of benefit value
- Plans 2/3 - later retirement age trade-off for 3% COLA proves worthwhile

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